

December 22, 2005

Mary Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

RE: Bay State Gas Company, DTE 05-27

Dear Secretary Cottrell:

On December 13, 2005, the Bay State Gas Company (“Company” or “Bay State”) filed a motion for reconsideration of the Order issued by the Department of Telecommunications and Energy (“Department”) in the Company’s general rate case. The Hearing Officer requested that intervenors file oppositions by December 23, 2005. The Attorney General submits this letter as his response.

The Attorney General opposes the Company’s attempt to increase customer rates through reconsideration.¹ In particular, the Company has not established that it is entitled to reconsideration of the Department’s treatment of the Westborough lease or Customer Information System (“CIS”). The Department reduced the amount of the Westborough headquarters lease expense included in the cost of service to reflect the fact that the Company was using only a fraction of the total office space available in the building. Order, pp. 224-227. The Department also recognized that the Company had not done a cost benefit analysis of the sale / leaseback of the headquarters and ordered the Company to perform such an analysis for its next rate case. *Id.*, pp. 148-149.

The Company argues in its motion that the Department should reconsider its decision since the Company’s decision to enter into the lease was reasonable at the time. Co. Motion, pp. 11-13. Furthermore, the Company argues that it should not be penalized for having fewer employees at the headquarters when it passes on other savings to customers through economies derived from the use of the NiSource Corporate Service Company (“NCSC”).

¹ This opposition is not intended to respond to every argument made or position taken by the Company in its motion. Silence by the Attorney General in regard to any particular argument, assertions of fact, or statement of position in the Company’s motion should not be interpreted as assent or acquiescence to any Company request that increases rates. The Attorney General has no objection to the proposed adjustments that reduce rates for customers.

The Department should deny the Company's request for reconsideration. First, the Company did not provide any new evidence or argument that meets the Department's criteria for reconsideration. The Company is simply rearguing those points it already made in its briefs in this case. See Co. Br., p. 119 and Co. Reply Br., pp. 21-22; See *Commonwealth Electric Company*, D.P.U. 92-3C-1A at 3-6 (1995). Second, the Department found specifically in this case that there was not enough evidence to prove the reasonableness of the sale / leaseback transaction the Company made when it sold the headquarters, so it ordered the Company to provide such a cost / benefit analysis with its next base rate case filing. Order, pp. 149-149. Finally, the Company's contention that there are other savings associated with the NCSC relationship is simply incorrect. The Company's administrative and general expenses ("A&G"), which reflect the NCSC costs, have not decreased since the Company's merger with NIPSCO, but actually increased at a rate faster than inflation. See AG Reply Br., p. 12, Footnote 8 (A&G has increase at a rate 33 percent greater than the rate of inflation).

The Department reduced the Company's request for inclusion of all of its CIS System software costs in rate base to remove those costs that were unreasonable. Order, pp. 87-97. The Company, in its motion, argues that the Department's adjustment is not supported by the evidence and is inconsistent with the treatment provided by the Department for other utility CIS investments. Co. Motion, pp. 19-20.

This issue does not qualify for reconsideration. The Company is simply rearguing the evidence that the Department recognized and cited in its Order. Order, pp. 86-97. It adds no new arguments and no new evidence. *Commonwealth Electric Company*, D.P.U. 92-3C-1A at 3-6 (1995). Furthermore, the Company's contention that the Department's treatment of its CIS cost is different from that afforded KeySpan Energy Delivery New England is erroneous. Co. Motion, pp. 23-24, citing *KeySpan Energy Delivery New England*, D.T.E. 03-40, p. 87 (2003). In that case, as in KeySpan's previous base rate case in D.P.U. 96-50, the Department found that as a utility "that relies on the same incomplete decision-making processes as were used in the [CSS] conversion project, the Company would have little basis for complaint if the Department were to reject all or a portion of the costs associated with that future project." All utilities were warned, as far back as 1996, that the Department would deny investments associated with projects based on such poor decision making processes. *Id.*, p. 89. The Department, therefore, should deny the Company's motion regarding the CIS System rate base addition.

The Department should adopt the positions taken in this opposition as in the best interests of customers.

Sincerely,

Alexander J. Cochis
Assistant Attorney General

cc. Service list